

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Consider the following data from the economy of Adanac: 1) _____

- Currency outside banks: \$15 billion
- Personal and non-personal chequable deposits: \$40 billion
- Personal non-chequable deposits: \$50 billion
- Non-personal non-chequable deposits: \$125 billion
- Fixed term deposits: \$200 billion

The value of M1 is \$_____ billion and the value of M2 is \$_____ billion.

- A) 105; 230 B) 60; 430 C) 55; 230 D) 110; 235 E) 55; 430

2) The reserves of a bank include 2) _____

- A) the cash in its vault plus any deposits held on account at the Bank of Canada.
- B) the cash in its vault plus any deposits held on account with the Bank of Canada plus the value of any government bonds that it holds.
- C) all of its common stock holdings, the cash in its vault, and all deposits held on account with the Bank of Canada.
- D) the cash in its vault plus any gold held for the bank at the Bank of Canada.
- E) the cash in its vault plus the value of its chequable deposits.

3) The Monetary Base consists of the sum of 3) _____

- A) Bank of Canada notes held outside the Bank of Canada, the desired reserves of chartered banks, and coins held by banks.
- B) Bank of Canada notes held within the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks and the public.
- C) Bank of Canada notes held within the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks.
- D) Bank of Canada notes held outside the Bank of Canada, bank deposits at the Bank of Canada, and notes and coins held by banks.
- E) Bank of Canada notes held outside the Bank of Canada, bank deposits at the Bank of Canada, and coins held by banks and the public.

4) Whenever actual reserves exceed desired reserves, the bank 4) _____

- A) can make new loans.
- B) will raise the interest rate on its loans.
- C) needs to call in loans.
- D) will borrow funds from another bank.
- E) will go out of business.

Use the information below to answer the following questions.

Fact 24.3.1

The Bank of Speedy Creek has chosen the following initial balance sheet:

Assets		Liabilities	
Reserves	\$40	Deposits	\$500
Loans	\$460		
	\$500		

- 5) Refer to Fact 24.3.1. Based on the Bank of Speedy Creek's initial balance sheet, what is its desired reserve ratio? 5) _____
- A) 8 percent
 - B) 12.5 percent
 - C) 25 percent
 - D) 4 percent
 - E) 40 percent
- 6) The quantity of money that the banking system can create is limited by 6) _____
- A) the quantity of bank notes released by the Bank of Canada.
 - B) the number of consumers who apply for loans.
 - C) the monetary base, desired reserves, and desired currency holdings.
 - D) the credit ratings of the consumers who are applying for loans.
 - E) bank managers' decisions.

Use the figure below to answer the following questions.

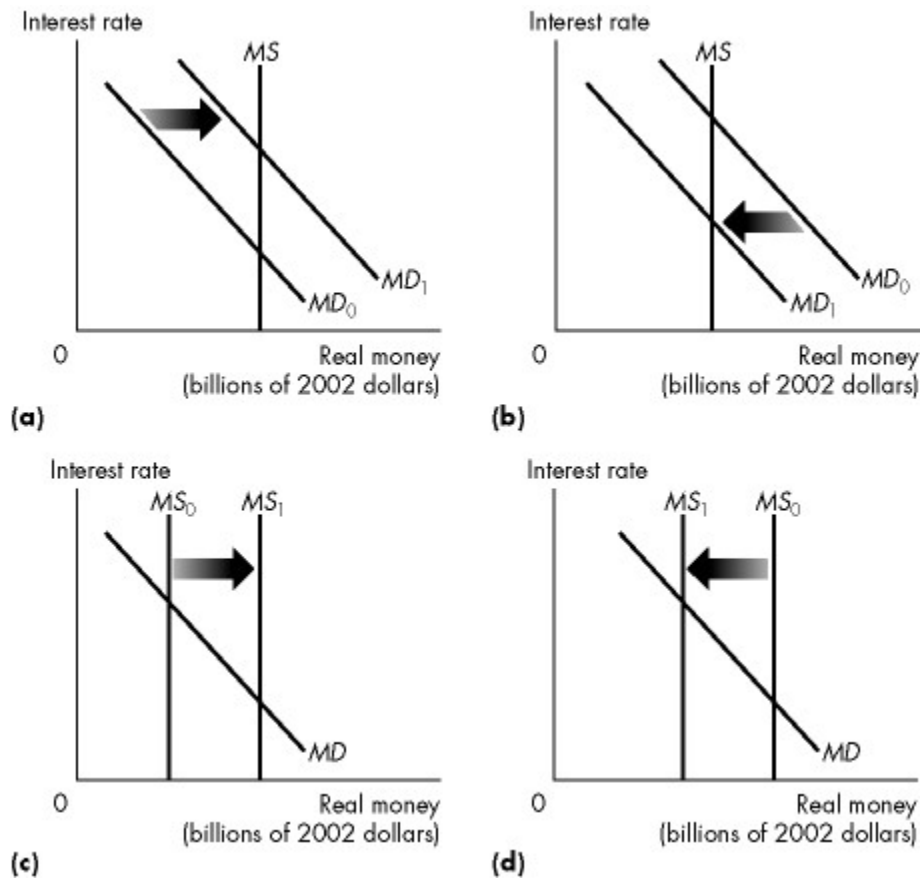


Figure 24.4.1

- 7) Refer to Figure 24.4.1. Everything else remaining the same, which graph best shows a decrease in real GDP? 7) _____
- A) (a) B) (b) C) (c) D) (d) E) (a) and (c)
- 8) If households and firms find they are holding less money than desired, they will 8) _____
- A) sell bonds, and the interest rate will fall.
 B) sell bonds, and the interest rate will rise.
 C) buy bonds, and the interest rate will rise.
 D) buy goods, and the price level will rise.
 E) buy bonds, and the interest rate will fall.
- 9) Real GDP is \$2,000 billion, the price level is 120, and the velocity of circulation is 5. Nominal GDP is 9) _____
- A) \$2,000 billion.
 B) \$166.67 billion.
 C) \$600 billion.
 D) \$24 billion.
 E) \$2,400 billion.

Refer to the table below to answer the following questions.

Table 25.1.1

Currency	2009 Exchange Rate	2010 Exchange Rate
EU euro	2 euros/dollar	3 euros/dollar
Japanese yen	120 yen/dollar	90 yen/dollar

- 10) Refer to Table 25.1.1. Between 2009 and 2010, the Canadian dollar _____ versus the euro and _____ versus the yen. 10) _____
- A) depreciated; appreciated
 - B) not changed; not changed
 - C) appreciated; depreciated
 - D) depreciated; depreciated
 - E) appreciated; appreciated
- 11) Which of the following shifts the supply curve of Canadian dollars rightward? 11) _____
- A) A decrease in the demand for Canadian goods by foreigners.
 - B) U.S. interest rates fall.
 - C) An increase in the demand for foreign goods by Canadians.
 - D) The dollar is expected to appreciate.
 - E) None of the above.
- 12) The Canadian exchange rate depreciates if 12) _____
- A) the Canadian interest rate rises.
 - B) the U.S. interest rate rises.
 - C) prices increase in the United States and other countries but remain constant in Canada.
 - D) all of the above.
 - E) none of the above.
- 13) Suppose that a U.S. dollar can earn interest of 5 percent a year in Chicago and a Canadian dollar can earn interest of 7 percent a year in Winnipeg. Will money flow from Chicago to Winnipeg? 13) _____
- A) Yes, because the returns on money are higher in Winnipeg.
 - B) No, as long as the U.S. dollar maintains higher purchasing power than the Canadian dollar.
 - C) No, if investors expect the U.S. dollar to appreciate by at least 2 percent per year.
 - D) No, because the outflow of U.S. funds would create a decrease in the U.S. dollar value, penalizing investors when they attempted to recover their funds.
 - E) No, if investors expect that the Canadian dollar will appreciate by at least 2 percent per year.
- 14) Which of the following factors move the demand curve for Canadian dollars and the supply curve of Canadian dollars in opposite directions? 14) _____
- A) The interest rate differential increases or decreases.
 - B) Canadian imports increase or decrease.
 - C) The world demand for Canadian exports increases or decreases.
 - D) The expected future exchange rate rises or falls.
 - E) Both A and D above.

- 15) Given the Canadian price level P , the foreign country price level P^* , and the nominal exchange rate E in foreign currency per Canadian dollar, the real exchange rate RER equals _____. 15) _____
- A) $E \times (P/P^*)$ B) $E \times (P^*/P)$ C) $P \times E \times P^*$ D) $(P/P^*) / E$ E) $P \times (E/P^*)$

Refer to the figure below to answer the following questions.

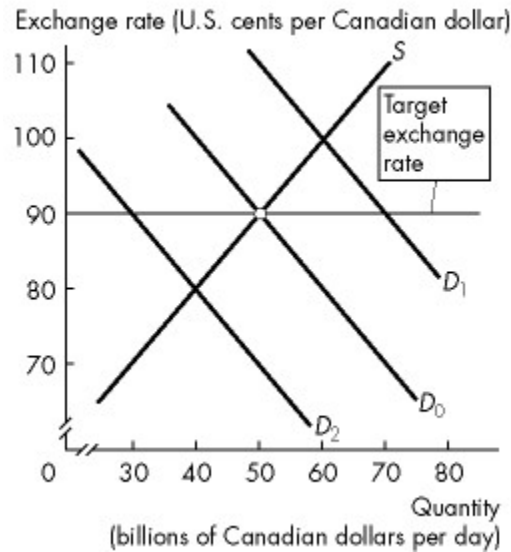


Figure 25.3.1

- 16) In Figure 25.3.1, suppose the demand for dollars temporarily decreases so that the demand curve shifts to D_2 . To maintain the target exchange rate, the Bank of Canada 16) _____
- A) must raise the target exchange rate.
 B) buys dollars.
 C) must lower the target exchange rate.
 D) sells dollars.
 E) must violate both interest rate parity and purchasing power parity.
- 17) Which one of the following transactions would be recorded as a positive entry in the Canadian balance of payment accounts? 17) _____
- A) A Canadian citizen purchases a U.K. government bond.
 B) A Canadian tourist spends \$3,000 while visiting Banff.
 C) A Canadian tourist spends \$3,000 while visiting France.
 D) A Canadian corporation sends interest payments on outstanding bonds to U.S. citizens.
 E) A French tourist spends \$3,000 while visiting Banff.

Use the information below to answer the following questions.

Fact 25.4.1

You are given the following information about the country of Ecoland, whose currency is the turkey, and whose official settlements balance is zero.

Variable	Billions of turkies
Real GDP	50
Consumption expenditure	30
Government expenditure on goods and services	12
Investment	11
Exports	10
Government budget deficit	2

- 18) Refer to Fact 25.4.1. What is the value of the capital account and financial balance for Ecoland, given the value of net interest income plus net transfers is +3 billion turkies? 18) _____
- A) +6 billion turkies
 - B) -1 billion turkies
 - C) zero
 - D) +3 billion turkies
 - E) -3 billion turkies
- 19) Suppose that a country's government expenditures are \$400 billion, net taxes are \$300 billion, saving is \$300 billion, and investment is \$250 billion. This country has a government budget 19) _____
- A) surplus and a private sector surplus.
 - B) surplus and a private sector deficit.
 - C) deficit and a private sector deficit.
 - D) surplus and a private sector balance.
 - E) deficit and a private sector surplus.
- 20) A cost-price inflation spiral results if the policy response to stagflation is to keep 20) _____
- A) decreasing short-run aggregate supply.
 - B) decreasing aggregate demand.
 - C) increasing aggregate demand.
 - D) increasing short-run aggregate supply.
 - E) doing nothing.
- 21) Which of the following would cause the aggregate demand curve to keep shifting rightward year after year? 21) _____
- A) a one-time increase in government expenditures on goods and services
 - B) a one-time tax cut
 - C) a persistent increase in the quantity of money
 - D) excess wage demands
 - E) inflation
- 22) A forecast based on all the relevant information is 22) _____
- A) an adaptive expectation.
 - B) a rational expectation.
 - C) a future expectation.
 - D) a perfect forecast.
 - E) always a correct expectation.

- 23) If the unemployment rate rises and the inflation rate falls, while the natural unemployment rate and the expected inflation rate remain constant, then we are studying a movement along the _____ 23) _____
- A) aggregate demand curve.
 - B) short-run Phillips curve.
 - C) long-run aggregate supply curve.
 - D) Phelps-Friedman curve.
 - E) Friedman curve.
- 24) For a given expected inflation rate, the higher the unemployment rate, the lower is the actual inflation rate. This relationship is the _____ Phillips curve. When the expected inflation rate changes, this is shown as a movement along the _____ Phillips curve. 24) _____
- A) long-run; natural
 - B) natural; short-run
 - C) short-run; long-run
 - D) short-run; short-run
 - E) long-run; long-run

Use the figure below to answer the following questions.

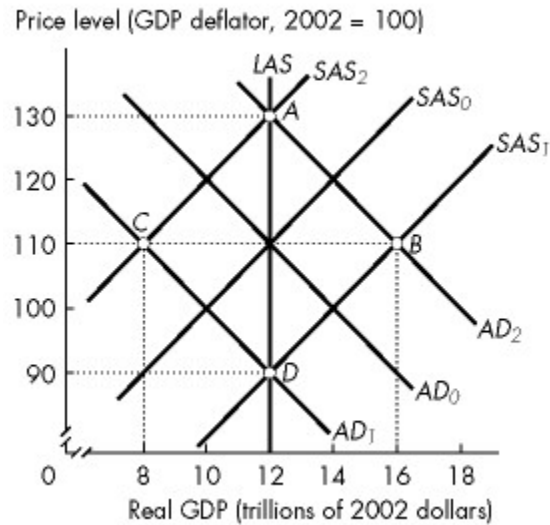


Figure 28.3.1

- 25) Refer to Figure 28.3.1. Suppose the economy moves from point A to point C. According to the monetarist theory of the business cycle, what could have caused this movement? 25) _____
- A) animal spirits
 - B) an increase in the money wage rate
 - C) a decrease in the growth rate of the quantity of money
 - D) an increase in uncertainty
 - E) an increase in the growth rate of the quantity of money

- 1) E
- 2) A
- 3) E
- 4) A
- 5) A
- 6) C
- 7) B
- 8) B
- 9) E
- 10) C
- 11) C
- 12) B
- 13) C
- 14) E
- 15) A
- 16) B
- 17) E
- 18) C
- 19) E
- 20) C
- 21) C
- 22) B
- 23) B
- 24) C
- 25) C